



"To enrich lives through effective and caring service"



Stan Wisniewski
Director

Kerry Silverstrom
Chief Deputy

August 17, 2006

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**APPROVAL OF OPTION FOR LEASE AND LEASE TO FACILITATE
REDEVELOPMENT – PARCEL IR (MARRIOTT RESIDENCE INN) - MARINA DEL REY
(4th DISTRICT)
(4 VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Find that the proposed Option for Lease Agreement ("Option"), attached as Exhibit A, is categorically exempt under the California Environmental Quality Act pursuant to class 4(j) of the County's Environmental Document Reporting Procedures and Guidelines.
2. Approve and authorize the County Mayor to sign the attached Option granting to IWF Beachfront Hotel, L.P., a California limited partnership ("Lessee"), upon fulfillment of stated conditions, the right to lease Parcel IR for 60 years.
3. Approve and authorize the County Mayor to sign the new lease ("Lease") in substantially similar form to Exhibit B, upon confirmation by the Director of the Department of Beaches and Harbors ("Director") that the Lessee has fulfilled the Option conditions.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Subsequent to the Board-authorized release of the Request For Proposals For Development of Hotel And/Or Other Uses On County Parcels GR, IR and NR and a

committee's evaluation of the proposals received and its resulting recommendations, concurred in by the Director, your Board authorized exclusive negotiations for an option for a long-term lease with Lessee for the proposed development. The proposed Option is the result of negotiations with Lessee and is designed to allow the Lessee to exercise its option and receive the benefits of the Lease ("Exhibit B") upon demonstration that it has satisfied all of the conditions for exercise contained in the Option and has received all planning, zoning, environmental and other entitlement approvals required to be obtained from governmental authorities for the construction of the development project.

The Lease provides for a term of 60 years for Parcel IR; the construction and operation of a two-building, multi-story, 147-unit AAA Three Diamond destination extended stay resort facility (Residence Inn by Marriott) totaling approximately 120,000 square feet and parking for 300 automobiles (84 spaces required for the hotel and 216 spaces as replacement for the existing Parcel IR public parking). No less than 280 parking spaces are to be located on-site and the balance (20 parking spaces) to be located either on-site or in a proposed off-site parking structure to be built and operated by the County.

The Lease also provides for the lessee to pay a non-refundable \$100,000 option fee; establish three sinking funds, namely a Capital Improvement Fund, a Renovation Fund, and a Furniture, Fixture & Equipment Fund. Additionally, the development plan requires the Lessee to contribute to a common fund established to provide for the cost of constructing new public amenities at Marina Beach on the adjacent non-leased portion of Marina Beach, with Lessee responsible for 25% of the total projected cost of such public facilities, but not more than \$150,000 adjusted annually for inflation. Total development cost to be expended by Lessee is to be not less than \$23.6 million.

Once the Lessee has obtained all necessary project entitlements and has fulfilled the other requirements entitling it to exercise the Option, the Director will present the finalized Lease to the Executive Office for execution by the County Mayor. The finalized Lease will be in substantially similar form to Exhibit B, reflecting revisions necessitated by changes to the project arising from the entitlement process and to facilitate financing.

The Department has obtained an appraisal that confirms the return to the County from the Lease for Parcel IR is equivalent to, or greater than, fair market value.

Implementation of Strategic Plan Goals

In furtherance of County Goal #4, "Fiscal Responsibility," the recommended action will allow the Department to implement that portion of its Strategic Plan that enhances strategic partnerships with existing and prospective lessees through proactive implementation of the Marina del Rey Asset Management Strategy toward both revenue

maximization and property redevelopment. The County's goal of "Service Excellence" is promoted through the development of new visitor-serving facilities at Marina Beach.

The following chart details the proposed deal terms of the Lease as they relate to your Board's existing lease policy:

BOARD POLICY ITEM	PROPOSED DEAL TERMS – PARCEL IR
<p>REDEVELOPMENT Redevelopment of existing improvements</p>	<ul style="list-style-type: none"> • Construction of a two-building, multi-story, 147-unit, AAA Three Diamond destination extended stay resort facility (Residence Inn by Marriott) totaling approximately 120,000 square feet. • A minimum of 300 parking spaces, with not less than 280 parking spaces on-site. The hotel project requires 84 parking spaces and Lessee is required to replace the existing 216 Parcel IR public parking spaces (total of 300 parking spaces). The balance of 20 parking spaces can be located on-site or in an off-site parking structure with Lessee paying its pro rata share of the parking structure's construction cost. Parking rates for public parking are subject to County and Coastal Commission approval. Construction to be completed within 18 months of exercise of option, subject to Force Majeure, but in all events within 30 months. • Total development cost not less than \$23,600,000. • A Capital Improvement Fund to be funded annually by Lessee in the amount of 1% of gross revenue commencing on the date of receipt of the first Certificate of Occupancy following commencement of construction ("CO Date") and 2% during each year thereafter, except that funding shall commence no later than the beginning of the third year following grant of Option. The Capital Improvement Fund must be fully expended for Permitted Capital Expenditures not later than ten years prior to the expiration date of the Lease. All Permitted Capital Expenditures are subject to prior approval by the Director, not to be unreasonably withheld. • A Renovation Fund to be funded annually by Lessee equal to 2% of annual gross revenue to start in the 11th year of the Lease to be used to physically reposition the project to then current market requirements not earlier than 12 months before and not later than 12 months after the 30th year prior to the expiration date of the Lease. Thereafter, no Renovation Fund shall be required. Lessee and Director to agree on a renovation plan and budget. • A Furniture, Fixture and Equipment Fund to be funded annually by Lessee equal to 1% of gross revenue during the first year following the "CO Date"; 2% during the second year; and 3% during each year thereafter; except that funding shall commence no later than the beginning of the third year following grant of Option.
<p>LEASE TERM</p>	<ul style="list-style-type: none"> • Option for a 60-year lease for Parcel IR.

EXTENSION FEE Fee equal to or commensurate with value of the extension	<ul style="list-style-type: none"> Not applicable for a new lease. Option Fee of \$100,000, payable immediately upon Board approval of Option. Option Fee payment is non-refundable if Option is not exercised.
MARKET RATE RENTS Ensure fair market rents	<ul style="list-style-type: none"> Minimum annual rent of \$100,000 per year to commence upon exercise of Option and will continue through earlier of CO Date or Required Completion Date. Minimum annual rent for three years following the earlier of CO Date or Required Completion Date equal to 75% of total annual average rent due to County based on Lessee's projected gross revenues for first three years of operation, to be provided by Lessee and reasonably approved by County. Commencing with the fourth year after the earlier of CO Date or Required Completion Date, and every 3 years thereafter, the minimum rent to be reset, equal to 75% of the previous 3 years average annual total rent paid to County. Percentage Rents: <ul style="list-style-type: none"> Hotel – 7.5% Parking (Commissions) – 20% Parking (Lessee operated) – 5% Food & Beverage – 3.5% Bar/Cocktail Lounge – 10% Vending (Commissions) – 25% Vending (Owned) – 5% Retail – 4% Misc. Sales – 5% Percentage and minimum rents are subject to renegotiation to Fair Market Rental ten years after earlier of CO Date or Required Completion Date and every ten years thereafter.
PARTICIPATION IN SALE AND REFINANCE Secure County participation in sale and refinance of leasehold	<ul style="list-style-type: none"> First sale and/or refinance are exempt if sale or refinance occurs during the first ten years following CO Date. Subsequent Sale Participation: Upon second or any subsequent sale or if first sale occurs after the tenth year, greater of 5% of gross proceeds or 20% of net proceeds upon assignment or other direct or indirect transfer of leasehold, however, gross proceeds must exceed 105.26% of Lessee's Cost Basis for participation in gross proceeds to be triggered. Subsequent Refinance Participation: 20% of net loan proceeds not reinvested in leasehold. Transfers to be permitted to affiliates or related parties (for estate planning purposes or otherwise) without triggering obligation for Sale Participation.
COUNTY ADMINISTRATIVE COSTS Ensure payment for County costs for lease negotiation and administration	<ul style="list-style-type: none"> Not applicable for a new lease.

COUNTY INCOME CONTINUITY Ensure County revenue flow during redevelopment	<ul style="list-style-type: none"> Minimum annual rent of \$100,000 per year to commence upon exercise of Option and will continue through earlier of CO Date or Required Completion Date.
RIGHT TO RECAPTURE	<ul style="list-style-type: none"> County shall have the right to purchase the leasehold interest if Lessee desires to either assign or sell the leasehold or a controlling interest in Lessee.
LEASE ASSIGNMENT-DISCLOSURE ISSUES	<ul style="list-style-type: none"> Lessee has agreed to County disclosure requirements as to identity, operating experience and character/reputation of proposed assignees, as well as to disclosure of financial information in conformity with County policies. After the certificate of occupancy is issued, the Lease shall be assignable only to a party who is (i) an experienced hotel operator, or affiliated (contractually or otherwise) with an experienced hotel operator; or, (ii) a party who has a nationwide reservation system, or who is affiliated (contractually or otherwise) with a party who has a nationwide reservation system.
APPRAISAL	<ul style="list-style-type: none"> The Department has obtained an independent appraisal confirming the return to the County from the Lease is equivalent to, or greater than, fair market value.
HOTEL OPERATOR	<ul style="list-style-type: none"> Throughout the term of the Lease, an experienced hotel operator with a nationwide reservation system will operate the hotel.
PROMENADE	<ul style="list-style-type: none"> Waterfront Promenade will be constructed in conformance with LCP and Marina design guidelines. In addition to the Waterfront Promenade, Lessee will pay 1/4 of such costs for public improvements at Marina Beach (including, but not limited to, picnic facilities, restrooms and showers, playground equipment and other amenities and related costs), however Lessee's share of costs not to exceed \$150,000 (adjusted annually according to the ENR Construction Cost Index with base set on the CO Date).
REGULATORY APPROVALS	<ul style="list-style-type: none"> Density, site coverage, open space, view corridors and building height issues are subject to Lessee obtaining all County and Coastal planning and entitlement approvals, including that of Design Control Board. Lessee must obtain all regulatory approvals within 18 months of grant of Option by Board of Supervisors. If Lessee is unable to obtain all necessary approvals within the 18-month requirement, the Director may grant one six-month extension if Lessee can demonstrate it has diligently pursued those approvals. The foregoing 18-month (or 24-month) period is subject to litigation and appeal tolling provisions.

Additional Matters

OTHER TERMS	<ol style="list-style-type: none">1. 10 years prior to expiration of Lease, Lessee to structure funding for removal of improvements (at County's election).2. Rental renegotiation and insurance disputes subject to rent-a-judge procedure pursuant to "baseball" type arbitration.3. Maintenance standards for improvements to conform to Marina del Rey standards as revised from time to time.4. Lease administrative items include: a) late fee of 6% plus interest at prime plus 3% for any late payments; b) security deposit equal to 3 months' minimum rent; c) insurance levels reset/renegotiated upon execution of the Lease and every 5 years thereafter; d) County approval rights over all construction plans and specifications; and e) enhanced audit and record-keeping standards.5. Liquidated damages of \$100 per day (adjusted for inflation) for each cited maintenance deficiency that remains uncured after a specified cure period, to be assessed against the security deposit.
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FISCAL IMPACT/FINANCING

The Lease reflects the County's current market rate percentage rents for all relevant categories. It will produce two categories of fiscal benefit to the County: 1) an option fee; and 2) increased revenue due to construction of a new resort hotel on an existing parking lot.

Option Fee

Upon exercise of the Option, Lessee will pay a non-refundable option fee of \$100,000.

Increased Revenue Due to New Construction

The total revenue earned from the existing Parcel IR public parking lot during 2005 was approximately \$78,000. After construction and stabilization, our economic consultant has estimated that the total County rent from the new hotel project will amount to approximately \$703,000 annually, an annual increase of approximately \$625,000.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Parcel IR encompasses approximately 2.42 acres of land and is currently utilized as a public parking lot. The proposed Option is the result of negotiations with Lessee and is designed to allow the Lessee to exercise its option and receive the benefits of the Lease upon demonstration that it has satisfied all of the conditions for exercise contained in the Option and has received all planning, zoning, environmental and other entitlement approvals required to be obtained from governmental authorities for the construction of the development project.

The development plan has been designed to allow for a realigned Admiralty Way and Via Marina intersection, which is currently being evaluated. If the realignment occurs, instead of only 20 parking spaces being relocated off-site, an additional 69 parking spaces will be placed in the proposed County parking structure, with these 69 spaces being at the expense of the County. If the intersection realignment does not occur, only the original 20 parking spaces will need to be placed in the proposed off-site public parking structure, with the lessee paying its pro rata share of the structure's construction cost.

Entering into a lease is authorized by Government Code Sections 25907 and 25536. The lease term is in conformance with the maximum 99-year period authorized by California law.

At its meeting of August 9, 2006, the Small Craft Harbor Commission endorsed the Director's recommendations that your Board approve the attached Option and Lease, which have been approved as to form by County Counsel.

ENVIRONMENTAL DOCUMENTATION

Approval of the Option is categorically exempt under the California Environmental Quality Act pursuant to class 4(j) of the County's Environmental Document Reporting Procedures and Guidelines. Execution of the Option does not authorize construction of any improvements on the parcel. The discretionary land use entitlements and corresponding environmental documentation necessary to implement the proposed development plan contemplated by the Option will be considered by the Department of Regional Planning.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

There will be a loss of existing public parking on Parcel IR during construction. Upon completion of the project, Lessee will have replaced all of the existing Parcel IR parking, either on-site or in a new parking structure currently being planned for Parcel GR and a portion of Parcel 21, near or adjacent to the Marina Beach. Preliminary conceptual planning is underway for the construction of new public amenities on the adjacent Parcel HR (also known as "Marina Beach"), to take place following completion of construction on Parcel IR and other parcels abutting or adjacent to Parcel HR (Marina Beach) on which redevelopment is contemplated, namely Parcels GR, 27R, NR and 33R.

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CONCLUSION

Please authorize the Mayor of the Board to execute three originals of the Option and authorize the Executive Officer of the Board to acknowledge the Mayor's signature and return two executed originals of the Option to the Department of Beaches and Harbors and retain one executed original for your files.

Respectfully submitted,

Stan Wisniewski
Director

Attachments (2)

c: Chief Administrative Officer
County Counsel

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